REPORT OF THE

BOARD OF EXAMINERS

ADVANCED DIPLOMA IN RETIREMENT PROVISION

OCTOBER 2017

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Introduction

The purpose of this report is to review candidates' performances in the twelve units examined in October 2017.

The examinations are either 'Core' or 'Specialist' Units. The Core Units consist of short answer questions and multiple choice questions. The performance of these examinations was mixed, with some high scores being achieved across in some but not all of the units. The Specialist Unit examination papers consist of a number of questions and three hours being allowed to answer the questions. Each specialist unit is supported by two study manuals; a unit specific manual and a generic communication manual.

When marking, examiners give marks for **relevant facts**. They also give marks for showing that candidates have **understood** the subject and, where appropriate, that they can **apply it** to the question asked. They also give marks for **communication** for some questions in the Specialist Units and Professionalism and Governance unit**.** Candidates, where requested to answer in a specific format, are encouraged to do so, so that format marks are not missed. The emphasis on understanding, application and communication increases further with the later units.

In all units, the examination questions are designed where possible to cover a wide range of the syllabus. Candidates therefore need to have reviewed all the study material. Distance learning courses and revision courses are recommended. Past examination papers will be useful and are available on the PMI website.

Examination questions are also drawn up where possible with an emphasis on the industry today. So extra reading will benefit candidates, particularly on the topics that are concerning the industry generally in the current environment.

Further details on the examination can also be found in the Test Specifications published on the website.

Candidates may be interested in knowing how the marking process works. The examiners are qualified members of PMI with broad experience in the industry. There is a separate group of examiners for each unit. They produce a marking schedule for each question, and then they mark some sample scripts and refine each of their marking schedules. Each script is marked twice completely independently. In the Core Units, the multiple choice questions are scanned at PMI and the analysis is reviewed by the examining teams to see how candidates have performed on this aspect of the examination and any alterations made where necessary. The performance of each question is reviewed along with overall performance statistics. This work seeks to ensure that each examination paper is a valid and reliable test, consistent with previous examination papers. The total for the multiple choice aspect is added to the short answer question total to give the candidate one overall mark.

The examiners for each unit recommend a pass mark for their unit based on the scripts submitted, above which they feel the candidates have demonstrated a knowledge and understanding of the subject worthy of a pass. All scripts near the pass mark are reviewed again, question by question and mark by mark, at an examiners meeting, to ensure that the candidate receives every mark warranted. A moderator looks at a selection of scripts from all the units to ensure consistency, and adjustments to

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the pass mark can be made in a final Board of Examiners meeting, taking account of the moderator's comments.

The table below summarises entries and performances across the units.

Unit	Entries	Absent / Withdrawn	Number of Scripts	% Pass
Core Unit 1A	102	16	86	**42**
Core Unit 1B	25	4	21	**52**
Core Unit 2	97	13	84	**49**
Core Unit 3	82	7	75	**73**
Core Unit 4	52	4	48	**46**
Defined Benefit Arrangements	26	3	23	**61**
Defined Contribution Arrangements	25	3	22	**73**
Retail Advice and Regulation	16	5	11	**36**
Taxation, Retail Investment and Pensions	23	18	5	**33**
Professionalism and Governance	56	8	48	**69**
Total				

Following the April examinations, 24 candidates completed the Advanced Diploma, 1 candidate completed the Diploma in Regulated Retirement Advice and 26 candidates completed the Diploma in Retirement Provision qualification.

The rest of this report looks separately at each unit examined in October 2017. It gives a guide as to how the question paper overall and each of the questions were answered by candidates, an indication of what was required in response to the questions, and any common errors or omissions. For the Core Units, some feedback on the multiple choice aspect of the examination is given. **Please note the October 2017 examinations were based on the 2017 syllabuses and on the law as it existed at 6 April 2016.**

Core Unit 1A - Understanding Retirement Provision (UK)

This was a 2 hour exam split between multiple-choice questions and free-format questions. Equal weighting of marks was given to both sections.

Multiple-choice questions

There were 50 questions, each correct answer being worth 1 mark. There were two types of question, as follows:

- 40 questions where candidates select one correct answer from a choice of four possible answers, and
- 10 questions where candidates are given two statements and have to determine whether both are true, the first is true and the second is false, the first is true and the second is false, or both are false.

Examples of these types of questions can be found on the PMI's website.

The questions were broadly representative of the entire syllabus.

In general, candidates achieved good scores on the multiple-choice questions.

For the multiple choice questions areas that candidates answered less well covered the following areas of the syllabus and study material:

Subject	2017 study manual reference
Pensions Acts 2007 and 2008	Part 1, Chapter 1.7
Disclosure	Part 1, Chapter 2.4.2
Investment manager	Part 2, Chapter 1.21
Public sector schemes	Part 4, Chapter 2.3.1

Short answer questions

There were 7 questions where candidates were required to write their answers in free format. Candidates are encouraged to devote one hour to this part of the examination but many answers were very brief and lacking in detail and this is inevitably reflected in the marks awarded. Indeed, some candidates did not even attempt to answer some of the questions.

Candidates are also encouraged to use a pen, rather than a pencil, when answering this part of the examination as handwriting when using pencils can be quite faint, pencils also become blunt and consequently answers can then be difficult for the examiners to read which may result in points being missed in the marking process.

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Question 1

Describe the compensation payable to members when a scheme's assets and liabilities are transferred to the PPF. (8 marks)

For this question candidates were expected to state the percentage of the accrued benefit that the Pension Protection Fund would pay to the different classes of member, the details of the cap on these benefits, and the fact that benefits come with LPI increases for pensionable service after 5 April 1997 and a 50% spouse's pension.

In general, candidates demonstrated an awareness of the percentages of accrued benefit payable although a common mistake was to refer to 100% of the benefit being payable if the pension was already in payment, rather than 100% if the member was over Normal Pension Age. Candidates were unclear about the cap on PPF compensation and few made reference to the LPI increases or the spouse's pension.

The relevant section of the study manual was Part 2, Chapter 1.8.2.

Question 2

List the requirements that apply to a pension scheme with its main administration in the UK in order that it may engage in cross-border activity. (8 marks)

The results for this question were disappointing with relatively few candidates scoring good marks. Candidates are reminded that they should be prepared to answer questions on any section within the syllabus and the study manual.

Most candidates were aware of the need for the scheme to be fully funded at all times and that the scheme must be registered by a relevant supervisory body (in the UK, the Pensions Regulator) but beyond this knowledge was very vague and superficial. Very few candidates knew of the requirements for trustees to inform members of the conditions of a cross-border scheme, its rules and the risks associated with the scheme.

A number of candidates misinterpreted the question as asking about HMRC requirements for transfers to Recognised Overseas Pension Schemes ("QROPS") and pensions liberation activity.

The relevant section of the study manual was Part 4, Chapter 2.3.3.

Question 3

Outline the typical responsibilities of the secretary to the trustees of an occupational pension scheme. (7 marks)

This question was generally well answered. Most candidates referred to the tasks of organising meetings and taking the minutes, filing the annual return, dealing with the Pension Protection Fund in respect of the levy and liaising with the trustees' advisers. However, many candidates failed to mention the activity of ensuring that trustees' meetings were quorate and ensuring that the correct formalities are complied in relation to the appointment and removal of trustees.

The relevant section of the study manual was Part 2, Chapter 1.15.2.

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Question 4

Write notes on the principal risk characteristics of Defined Benefit schemes and Defined Contribution schemes. (10 marks)

This question was well answered by the majority of candidates, with a strong understanding about the DB risks being largely for the sponsoring employer and DC risks largely for the member. Inflation risks for both DB and DC schemes were sometimes missed as was the fact that on a DB scheme the risk to the member's benefits of the sponsoring employer failing is largely mitigated by the Pension Protection Fund.

The relevant section of the study manual was Part 4, Chapter 2.2.

Question 5

Describe tax relief at source in respect of members' contributions to personal pensions. (5 marks)

Most candidates demonstrated an awareness of the basic principle that member contributions are paid from earnings after they have been taxed, and tax relief is then added by the pension provider. Many missed the point that this is in respect of basic rate income tax and that higher and additional rate tax payers need to claim further relief themselves from HM Revenue & Customs.

A number of candidates confined their answer to explaining that contributions and investments are exempt from tax and pensions in payment are taxed (the "EET" principle), and some unnecessarily devoted time to describing the net pay arrangement used by many occupational schemes, despite the wording of the question.

The relevant section of the study manual was Part 4, Chapter 1.2.2.

Question 6

Describe the main features of the Lifetime ISA ('LISA'). (5 marks)

This was the best answered question, with many candidates scoring maximum marks. Nearly all candidates were aware that the Lifetime ISA is open to individuals aged below 40 and contributions can be paid up to age 50, the £4000 maximum contribution limit and the Government bonus. Most were also aware that the savings can be used to purchase a first home or at retirement after age 60 and that withdrawal in other circumstances is permitted subject to loss of the bonus.

The relevant section of the study manual was Part 1, Chapter 2.3.1.

Question 7

Write brief notes about income support including the conditions that must be met for this to be payable. (7 marks)

This was the least well answered question with many candidates scoring low marks although some candidates did achieve maximum marks. Very few referred to the restriction on payment to claimants with savings over a certain level or made any attempt to detail the basic amounts payable, or even to note that there is one rate for single people aged between 16 and 24, a different rate for single people aged 25 and over, and another rate for couples. Few candidates noted that a claimant had to be aged between 16 and the qualifying age for pension credit.

On the positive side, a good number of candidates were aware that income support is payable if the claimant has either no income or a low income, and the fact that it is being replaced by Universal Credit.

The relevant section of the 2017 edition of the study manual was Part 3, Chapter 2.2.7.

International 1: Core Unit 1B – Foundation in International Employee Benefits

Multiple choice questions

Questions 1 through to 40 asked the candidate to choose a correct answer to the question from a choice of 4. Questions 41 to 50 asked the candidate to consider two statements and then to state whether neither, one or both of them were correct. The last ten questions with the True or False statements weren't answered well.

The areas that candidates answered less well were

Subject	Study manual reference
Defined Benefit plans in Japan	Part 4 Chapter 8
Flex benefit systems	Part 2 Chapter 7
UK State Pension	Part 4 Chapter 3
Lump sum benefits	Part 2 Chapter 4
Savings plans	Part 2 Chapter 5
US State pension system	Part 4 Chapter 4
Flex benefits plan	Part 2 Chapter 7

Short answer questions

Generally, candidates are reminded to:

- *Start questions on a fresh page;*
- *Read the question carefully;*
- *Note that some of the questions had marks available for format;*
- *Please write as neatly as possible.*

Question 1

You are the International Benefits Manager for an organisation acquiring a company in France. Your Mergers and Acquisitions team has asked you to write a briefing note summarising medical benefits in France. (10 marks)

Most candidates attempted and were aware that there is a National Healthcare Scheme funded by Social Security.

In addition, many were aware that reimbursement was a feature but most excluded the detail required, including the recent 2016 mandatory requirements.

The relevant section of the study manual was Section 4, Chapter 2.

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Question 2

Write notes on Pillar II Defined Contribution "401(k)" pension benefits offered by employers in the United States of America. (10 marks)

A majority of candidates stated that a 401(k) plan is a portable savings vehicle, with the most popular employer funding method being matching contributions.

However, the “safe harbour”/qualifying status and vesting requirements were often not included in candidates’ responses.

The relevant section of the study manual was Section 4, Chapter 5.

Question 3

List the key role/tasks of a lawyer involved in helping to deliver international employee benefits. (5 marks)

Some candidates understood this question well and had obviously studied the relevant section of the manual, and hence scored high or full marks.

However, there were examples where candidates missed out the detail expected in their answers, such as documenting special benefit promises and clarity of rules to limit liability and misinterpretation of rules.

The relevant section of the study manual was Part 3, Chapter 12.2.

Question 4

List the stated objectives of the Directive on Institutions for Occupational Retirement Provision (IORPS) and the exceptions to its application. (10 marks)

Where candidates had studied the manual, they often achieved high or full marks.

In general, the “objectives” section of the question was answered better than the “exceptions” which were also asked for.

The relevant section of the study manual was Part 5, Chapter 1.5.

Question 5

You are the International Benefits Manager for a global company and have been asked to summarise the key phases of financing your pension plan. (10 marks)

Most candidates understood the differences between funded and unfunded arrangements, but often gave a lot of detail and examples not asked for in the question.

Whilst many responses lacked the detail being asked for, this may have resulted from candidates not understanding what the question was asking of them.

The relevant section of the study manual was Part 1, Chapter 1.5.

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Question 6

Set out in bullet point form the main features of the Section 423 Plans (Employee Share Purchase Plan or ESPP) that are used in the United States. (5 marks)

Most candidates knew that discounted shares form the basis of this type of plan.

However, again, in many cases candidates had not read the question and included detail of share plans prevalent in other countries, e.g. UK, whereas the question specifically related to US Section 423 Plans only.

The relevant section of the study manual was Part 2, Chapter 6.2.

Core Unit 2 - Regulation of Retirement Provision

This is the fourth time the paper has used the new format of multiple choice answers and short answer questions. The overall standard of the short answers was not as high as in the previous examination session.

Multiple choice questions

For the multiple choice questions, areas that candidates answered less well covered the following areas of the syllabus and study material:

Subject	Study manual reference
Trustees' Annual Report	Part 2 Chapter 2
Marriage (Same Sex Couples) Act 2013	Part 3 Chapter 2
European Financial Services	Part 1 Chapter 4

Short answer questions

Question 1

What must Trustees consider when they make decisions which involve the exercise of a discretion? (5 marks)

This question was generally well answered. Most candidates referred to the considering of relevant information and not considering irrelevant information and acting in line with the Trust Deed and Rules. Other points to mention were that the trustees should ask themselves the correct questions in line with law and the relevant provisions of the scheme, and that the decision should not be perverse or irrational i.e. it should be a decision any reasonable body of trustees could have reached. A few candidates wrote about the recording of the decision in the minutes and how much information needed to be included. No marks were given for this as the question was only looking for what should be considered in terms of making the decision.

The relevant section of the study manual was Part 2, Chapter 2.12.

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Question 2

List any 5 Benefit Crystallisation Events. (5 marks)

This was a straight forward easy question for candidates to pick up maximum marks. There are 13 benefit Crystallisation events that are listed in the manual and only 5 were required to get full marks for this question. Most candidates should also have a working knowledge of these events. The majority of candidates did score well, but some candidates were only able to identify one event indicating they had not studied the manual.

The relevant section of the study manual was Part 1, Chapter 1.3.1.

Question 3

(a) Outline what happens to a target's business and obligations on a Share Sale. (3 marks)

(b) Write notes on the pensions issues which can arise on a Share Sale when the target is the sole employer of a defined benefit occupational pension scheme. (7 marks)

This was the worse answered of the 7 questions. Of the 10 marks available very few candidates managed to achieve even half marks. Generally candidates either got mixed up between the obligations of the target and the buyer or wrote about s75 debts.

The first part of the question was answered better than the second part. In a share sale the ownership and control transfers to the seller, but the business continues as before. The target continues to employ the same employees and has the same pension liabilities (unless as part of the transaction it is agreed with the scheme trustees and other participating employers that this should change).

The second part of the question was a continuation of the first looking at what would happen to the targets pension scheme where the target is the sole employer. However a number of candidates wrote the opposite to what they had written in their answer to a) – which reinforces the importance of reading the question carefully. Facts we were looking for were that the scheme is likely to remain with the target who would remain the Principle Employer and liable for the funding of the scheme. However as the target becomes part of the buyers group the buyer would be associated with the target. The buyer and other companies within the group could be issued with a contribution notice. Very few candidates mentioned these points. Instead candidates wrote about the liability for the Scheme transferring to the buyer, triggering a s75 debt or about future arrangements and minimum company contributions. Some candidates also wrote about the sales process and due diligence.

In the past candidates have tended to struggle on questions around share and business sales, getting the facts mixed up so it is worth reading this section of the manual carefully and understanding the differences.

The relevant section of the study manual was Part 4, Chapter 1.4.1.

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Question 4

TPR's powers, as defined in Statute, include "Putting things right" where problems have been identified. List 5 examples of the Regulatory actions TPR can take to protect the security of members' benefits. (5 marks)

This question was well answered. Points to include were, issuing improvement notices requiring specific action, take action to recover unpaid contributions, prohibition of trustees, fines, prosecution, appointing independent trustees, and issuing freezing order on wind up.

The relevant section of the study manual was Part 1, Chapter 3.2.1.

Question 5

In relation to pensions, describe the activities carried out by an individual or Company for which they must be authorised by the Financial Conduct Authority. (9 marks)

Although most candidates were able to list some activities most got less than half marks of the 9 marks available on this question.

The activities to include were;-giving advice, arranging transactions, dealing in and managing certain products including insurance policies (such as GPP’s and s32 buyouts), AVCs, investment options in pension schemes and group life policies. Most candidates were able to refer to some of these. Quite a few candidates however misread the question and wrote about background to the FCA and Regulatory authorities in general.

The relevant section of the study manual was Part 1, Chapter 3.5.3.

Question 6

Outline what pension scheme trustees must do in order to comply with the member-nominated trustee requirements under the Pensions Act 2004. (10 marks)

The scores obtained by candidates on this question were varied. Some candidates answered well and obtained most of the 10 marks available but others only obtained a few marks. Most candidates referred to the requirement for occupational pension schemes to appoint a third of total trustees as MND’s and that the nomination process has to include at least all active and pensioner members. Few candidates referred to the selection process. Other marks were available for reference to TPR’s code of practice and the 3 principles of proportionality, fairness and transparency. A few candidates wrote about eligibility requirements to be a trustee, which was not required.

The relevant section of the study manual was Part 2, Chapter 2.1.7.

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Question 7

As part of their management of service providers what can Trustees/ employers do to ensure their relationships with advisers remain robust and professional. (6 marks)

This was covered in the Governance Section of the manual focussing on trustees having adequate controls in place. It was not particularly well answered. Some of the points to include were that trustees should fully understand the advice given to them, understand what the adviser needs to fulfil their role, that the fee basis is appropriate and documented, that members are receiving value for money for services. A number of candidates picked up less than half marks on this with many writing about the tender process to select new advisers rather than the managing of existing advisers.

The relevant section of the study manual was Part 5, Chapter 1.2.8.

Core Unit 3 - Running a Workplace Pension Scheme

There were two parts to the question paper:

- Part One consisted of 50 multiple choice questions
- Part Two consisted of six short answer questions

Multiple choice questions

Candidates generally scored high marks for part one of the paper demonstrating a good knowledge of the subject matter across the full syllabus. In total there were 10 questions where over 95% of candidates selected the right answer. These covered areas such as:

- Annual Allowance
- Administration
- Benefits
- Lifetime Allowance
- SMPI
- The Pensions Regulator
- Automatic enrolment
- Scheme accounting

For the multiple choice questions areas that candidates answered less well covered the following area of the syllabus and study material:

Subject	Study manual reference
Data Protection	Part 1, Chapter 2

In the post examination review it was agreed that a question would be discounted from the examination paper.

Short answer questions

Average scores for Part 2 of the paper were lower than for Part 1. Overall the standard of answers was good. The best answered question was Question 2 and the two questions which attracted the lowest average scores were questions 5 and 6.

Question 1

Outline the information requirements an employer must meet to comply with its automatic enrolment duties. (5 marks)

The focus of this question was the information requirements. A number of candidates wrote everything they knew about automatic enrolment but didn't pick up many marks because they failed to cover the information requirements. The examiners were looking for candidates to include the following in their response:

- Enrolment / re-enrolment information to be provided to eligible jobholders, trustees managers or providers
- Opt in / joining rights for jobholders / entitled workers
- Information about postponement
- Information about transition period for DB if being used

The relevant section of the manual was Part 2 Chapter 1.

Question 2

List the key activities that a DB scheme should complete within 2 years of its winding up date as set out in guidance issued by the Pensions Regulator. (8 marks)

On average this question was well answered. The points to be covered as set out in the manual were:

- Calculating and serving any s75 debt
- Obtaining terms from insurers to secure benefits
- Allocating assets to members in line with the statutory priority order
- Issuing option letters to non-pensioners
- Paying benefits in line with options exercised
- Securing benefits
- Providing details of benefits secured with an insurer
- Final actuarial valuation and audited accounts

The relevant section of the manual was Part 6 Chapter 2.

Question 3

Describe the investment related activities which trustees may delegate to external providers. (10 marks)

Most candidates identified the activities but many didn't give enough of a description to obtain full marks. The main points as set out in the manual were:

- Investment managers
  - Day to day investment decisions
  - Trustees not responsible for poor decisions as long as properly appointed
- Investment advisers
  - Asset allocation and benchmarks
  - Report on investment manager performance
- Custodians
  - Hold securities and assets
  - Reduce risk of loss or fraud
  - Sub-custodian for overseas assets
- Investment monitoring services

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- Performance of insured contracts and manage funds
- Compare to other funds

The relevant section of the manual was Part 3 Chapter 6.

Question 4

Outline the factors that determine the benefits that are payable when an active member leaves pensionable service. (5 marks)

This question was generally well answered but a lot of candidates wasted time describing the calculation of benefits rather than the factors that determine them. The points to be included in the answer were:

- Whether the member has opted out after automatic enrolment
- Amount of qualifying service completed
- Whether the scheme is contributory or non-contributory for members
- Whether the member has contracted out service in the scheme
- The rules of the scheme eg whether early retirement is allowed
- Type of scheme (DB / DC)

The relevant section of the manual was Part 3 Chapter 1.

Question 5

List the records that must be retained by pension schemes as set out in The Registered Pension Schemes (Provision of Information) Regulations 2006 (as amended).

(5 marks)

The records required as set out in the manual are:

- Monies received by or owing to the scheme
- Investments or assets held by the scheme
- Payments made by the scheme
- Lifetime annuity contracts
- Administration of the scheme

The relevant section of the manual was Part 5 Chapter 1.

Question 6

Outline the conditions that must be met in order for a scheme to pay a trivial commutation lump sum. (10 marks)

The conditions which must be met are:

- All DB benefits from the scheme or schemes are commuted
- Some LTA available
- If more than one arrangement all commutations within 12 months
- Value cannot exceed £30,000 on nominated date
- Nominated date can be any date within 3 months of start of commutation period
- Member can choose nominated date – default is first day of commutation period
- Any DC benefits are paid as UFPLS
- Benefits commuted outside these conditions are an unauthorised payment
- Lump sums less than £10,000 can be paid irrespective of value of the benefits elsewhere

The relevant section of the manual was Part 3 Chapter 3.

Question 7

When pension rights are crystallised explain how they are valued for the purposes of checking whether they exceed the Lifetime Allowance. (7 marks)

This question was quite well answered. The point most often missed was around DC pots used to buy scheme pensions.

- DC – fund value at date of BCE unless pot is used to buy scheme pension
- DB – PCLS plus 20 x annual starting pension
- If DC pot is used to buy scheme pension value is 20 x starting pension
- Pensions in payment before April 2006 are tested at first BCE after that date
- Value is annual pension at date of BCE x 25
- Value is then deducted from LTA

The relevant section of the study manual was Part 4, Chapter 2.

Core Unit 4 - Financing and Investing for Retirement Provision

<u>Multiple choice questions</u>

Generally the multiple choice questions were answered very well and the average score was high.

For the multiple choice questions areas that candidates answered less well covered the following areas of the syllabus and study material:

Subject	Study manual reference
Socially Responsible Investment	Part 5 Chapter 3
With profits policies	Part 4 Chapter 4.3

<u>Short answer questions</u>

In relation to the short answer questions, candidates should remember to state what may seem obvious facts to them as marks are often available for this. The examiners would also remind candidates to study the whole manual; it is very clear when otherwise good candidates have not studied one or more particular sections. The short answer question are designed to cover the entire syllabus and are not restricted in any way.

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Question 1

Explain what is meant by the terms "interest rate risk" and "inflation risk", giving examples. (10 marks)

On the whole this question was fairly well answered, although many candidates forgot to explain the relevance of the risks for DC arrangements, for which marks were available. Some candidates were also rather muddled between the two risks.
Most candidates were able to describe both inflation and interest rate risk as set out in the manual and to provide an example for both. Marks were also available for explaining that the value of liabilities in a DB scheme reduces as the assumed interest rate increases, and that the assumed interest rate is known as the discount rate. Many candidates gained marks for explaining that inflation risk can also reduce the purchasing power of a pension in retirement. Good candidates explained that swaps or fixed interest rate bonds can be used to remove interest rate risk and that index linked bonds can remove inflation rate risk for DB liabilities.

The relevant section of the study manual was Part 2, Chapter 1.1 and 1.2.

Question 2

Write short notes on the investment records which need to be kept for Insured Schemes, including both with profits and non profits policies. (10 marks)

This question was very straightforward and could have been answered easily by candidates who had studied the relevant part of the manual. The examiners were disappointed that many candidates appeared not to have done so; many answers mistakenly set out in detail information which should be contained in the trustees' annual report rather than the information asked for in the question.
Candidates should have explained that for with profits policies, the records are: premium rates used for the contract, guaranteed yields, length of the guarantee and any enhanced yield from periodic bonus declarations. For non profit policies, the required records are: the rate of interest underlying the premium rates, which can be obtained from the life office or estimated by the actuary from premium rates and the rates used to buy pensions. Additionally, marks were available for explaining that underlying guarantees bear a cost and that a higher guarantee results in a lower interest yield.

The relevant section of the study manual was Part 3, Chapter 2.1.3.

Question 3

Outline the questions the trustees of a DB scheme should seek to answer when assessing attitude to risk. (10 marks)

On the whole, this question was answered well. Many candidates mentioned that the trustee attitude to risk depends on their assessment of the employer covenant and that they should ask how much risk the employer is willing to take, whether the employer could meet an increased shortfall if the scheme suffered adverse investment experience and whether the employer's priority is stability of cash requirements or of funding level. Good candidates also referred to whether there is an upper limit to employer contributions which the employer is prepared to pay or can afford, and also that the trustees need to consider whether there is a critical funding level, below which the shortfall becomes unmanageable financially. Marks were also available for mentioning the effect the investment policy has on the company accounts and that the funding level of the scheme may influence attitude to risk.

The relevant section of the study manual was Part 5, Chapter 2.1.

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Question 4

Describe the three main sectors of the UK commercial property market. (10 marks)

The examiners were disappointed that this question was answered rather poorly as it is very straightforward. Marks were available for stating that the three main sectors are retail, offices and industrial. Further marks were available for describing each of them – namely that retail includes shops, shopping centres and out of town developments, that offices includes both standard offices and business parks and that industrial property is typically used for logistics, storage and quasi retail. Candidates could also have gained marks for stating that retail is the largest sector and that industrial is a small proportion of the market given the trend to outsourcing overseas. In addition, the examiners awarded marks for explaining that the performance of retail property is driven by consumer spending, that of offices is cyclical and driven by the strength of the business environment and that the drivers of return on industrial property are varied including the performance of the manufacturing sector and retail activity.

The relevant section of the study manual was Part 4, Chapter 3.1.2.

Question 5

List the main factors which should be taken into account when selecting an investment manager. (10 marks)

This question was well answered. Marks were available for listing the business, being part of a larger parent, investment team and structure, investment philosophy and process, management, systems, performance, client service and fees. Candidates could also have gained marks for stating that fees should not drive selection. The examiners remind candidates that a list should be just that; there is no need for lengthy explanations or essays when a question asks for a list.

The relevant section of the study manual was Part 6, Chapter 2.1.

Defined Benefit Arrangements

Question 1

In most instances, before a scheme can enter the Pension Protection Fund, the sponsoring employer must have suffered a 'qualifying insolvency event'. Describe the circumstances which could be deemed to be a qualifying insolvency event. (10 marks)

This question was the worst answered with no candidates scoring maximum marks.

Candidates did not mention all the insolvency events, particularly where a proposal for a voluntary arrangement is made by the employer and a members' voluntary liquidation is converted into a creditors' voluntary liquidation.

The relevant section of the study manual was Part 5, Chapter 2.2.

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Question 2

Identify the various steps trustees should take in a typical risk management process.
(10 marks)

This question was generally poorly answered.

Few candidates covering all the necessary steps although some candidates did manage to score maximum marks. Many candidates provided too much detail on the different types of risk.

The relevant section of the study manual was Part 3 Chapter 2.5.

Question 3

The trustees of most defined benefit schemes put a Statement of Investment Principles (SIP) in place.

- Outline the actions the trustees must take before the SIP is drawn up;
- Describe the trustees' policies which must be included.

(20 marks)

Most candidates scored less than half marks on this question.

The trustees' policies which must be included were often missed. Candidates were aware that investment advice was required, and that the employer should be consulted but few mentioned responsibilities for monitoring investment performance or the need for investment mandates.

The relevant section of the study manual was Part 4, Chapter 6.

Question 4

Explain the changes made to public sector pension schemes since 2014. (10 marks)

Most candidates answered this question reasonably well.

Few candidates mentioned that the new employer must contribute, and the Fair Deal policy was overlooked by nearly everyone.

The relevant section of the study manual was Part 1, Chapter 1.

Question 5

You are the Pensions Manager for 123 Limited. Your Finance Director is concerned about costs and has asked you to write a briefing paper about restructuring the Company's final salary pension scheme to reduce costs. Write a briefing paper for the Financial Director
(20 marks)

This question was generally reasonably answered.

The majority of candidates made an attempt to answer the question in the required format therefore earning additional marks.

Most of the relevant points were covered although few candidates mentioned all the options.

The relevant section of the study manual was Part 1, Chapter 1.

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Question 6

Explain what Liability Driven Investment (LDI) is and describe the key components of an LDI strategy. (20 marks)

Some candidates had prepared well and scored high marks but mostly the question was poorly answered.

Most candidates were able to identify the two key components but did not include enough detail on other points.

Few candidates mentioned why LDI has grown in popularity recently and the way to hedge volatility without having to invest in low returning bonds.

The relevant section of the study manual was Part 4, Chapter 6.

Question 7

Explain the state pension provision before 6 April 2016 and how this relates to contracted-out benefits. (10 marks)

This question was the best answered.

Some candidates wasted valuable time providing unnecessary details on levels of revaluation applied to GMPs. Very few mentioned that state pension provision before April 2016 still applied to those reaching SPA before that date.

The relevant section of the study manual was Part 1, Chapter 1.

Defined Contribution Arrangements

The examiners are pleased to report that the overall standard attained in this sitting was high and it is evident that many candidates had studied hard and thus displayed a good grasp of the topics that came up. Some candidates scored particularly high marks in questions four and five and commendable attempts were made in questions one and two. Question three part (a) proved challenging for many presumably because this area is not encountered all that frequently in many candidates' day to day roles.

Once again, handwriting was not all that easy to decipher; the examiners would suggest that candidates practise writing answers under exam conditions if they do not already do so. Credit cannot be given for content that cannot be read even though it may be valid. In addition candidates must ensure that they answer questions in the format asked for in the question; on a number of occasions marks were missed for this reason and care must be taken not to mix answers up too much.

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Question 1

(a) You are a Pensions Adviser for ABC Limited which is in the process of establishing a new Defined Contribution Scheme and have been asked to brief the Trustees of the Scheme on the process adopted by HMRC to register pension schemes. Write a paper which explains how the process has evolved since 2006. [Note: the information required to register a new scheme is NOT required]. (15 marks)

(b) Write notes on ‘Electronic Filing’ (15 marks)

Part (a) was reasonably well answered and most candidates brought out the requirement to have schemes registered from ‘A’ day as opposed to ‘exempt approved’. The transitional process was covered off well whereby those schemes which were already approved at ‘A’ day became automatically registered from that day. Happily many candidates covered off the needs to deter Pensions Liberation and safeguard pension savings by giving a detailed explanation of the Risk Assessment process now adopted by HMRC.

Common omissions were those situations where HMRC may refuse to register a scheme e.g. where the Scheme Administrator is not a ‘fit and proper’ person to fulfil the role and/or where the scheme has been set up for a purpose other than to provide authorised pension benefits.

Part (b) produced some mixed answers which was a little surprising as it was a short notes question and normally these are well answered by candidates. The application to register a scheme and the Registered Pension Scheme Return were mentioned by most as were the ‘relief at source details’. However, many did not differentiate between those items which have to be submitted electronically and those which can be filed either electronically or by paper. Common omissions were:

- Event Report
- Scheme Administrator Declaration
- Notification of termination of a Scheme Administrator’s appointment
- It is not possible to file a self-assessment tax return for the Trustees of a Registered Pension Scheme online.
- The need to pre-register as a Scheme Administrator or Practitioner
- Authorising or de-authorising a Practitioner

The relevant section of the study manual was Part 2, Chapter 1.1.1 – 1.1.3.

Question 2

(a)

(i) Identify the core components of the proposed Pensions Dashboard. (3 marks)

(ii) Outline the issues which have been identified in the White Paper as key to the success of the Dashboard. (8 marks)

(b)

(i) Describe the key features of the Lifetime ISA. (10 marks)

(ii) Identify the proposals for accessing Lifetime ISA savings without penalty. (4 marks)

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Part (a) (i) was really well answered; the vast majority explained Digital identity, the Dashboard User Interface and the Pension Pathfinder Service well.

Part (a) (ii) produced some mixed responses; there was evidence that some had studied this area well and were thus able to articulate the issues clearly with a good level of understanding. Others however were not quite so au fait with the points sought and struggled to convince the examiners that they had understood the subject matter. Some very vague answers were given which did not attract many marks. This was particularly evident in the delivery options but on a positive note the governance structure, the funding and the potential for long term industry savings in administration and disclosure costs were well covered. Not many mentioned that if the dashboard results in a higher level of consumer involvement leading to higher contribution levels, the additional revenues from these could offset the cost of the dashboard.

Part (b) (i) was well answered with many candidates displaying a sound grasp of the Lifetime ISA. The age parameters, the contribution limits, the Government bonus, the fact that contributions are paid out of post-tax income and the tax free investment growth and benefit outflow were mentioned by most. Common omissions were:

- Individuals can open more than one LISA but contributions can only be paid into one LISA in each tax year.

- The Government is consulting on allowing contributions of more than £4,000 p.a. and over the age of 50 but there would be no Government bonus on these savings.

Part (b) (ii) again produced a variety of responses; almost everyone grasped the major purpose of the LISA which is to facilitate the purchase of one's first home and/or to provide a retirement fund from age 60. Not many made the point that provided the funds are withdrawn from age 60 they can be used for any purpose and the terminal ill health facility whereby the funds can be paid out at any age provided the HMRC's definition of ill health is satisfied was frequently overlooked.

The relevant section of the study manual was Part 6, Chapter 1, 1.5. 1.7.1-1.7.2.

Question 3

(a) You are a Pensions Consultant for the DEF Limited Defined Contribution Occupational Pension Scheme. The Chairman of Trustees would like to gain a better understanding of the Annual Chair's Statement. Write an email to him which explains when the Statement must be prepared and the information it should contain. (15 marks)

(b) Outline the 'Knowledge and Understanding' requirements that trustees of defined contribution occupational pension schemes must meet. (10 marks)

Part (a) was the least well answered question on the paper. Not many heeded the request to set out the answer in the form of an email so lost a few valuable marks. A good number mentioned the requirement for the Chairman to sign the Statement and the fact that it must be produced within seven months of the end of the scheme year. Not many however mentioned that the Statement must be produced for scheme years ending after 5th July 2015 and must cover the period from 6th April 2015.

The detail on the content of the Statement was lacking to say the least and it was plain to the examiners that many candidates had not studied this topic satisfactorily. Consequently the answers given were vague and had no substance. The common omissions:

- The default fund and the statement of investment principles
- Details of all reviews into the default strategy or fund performance
- Core financial transactions with confirmation that they have been processed timely and accurately
- Charges and transaction costs with details of charges and a statement of the extent to which they represent good value for money for the members
- Trustee knowledge and understanding and the extent to which the trustees have met the competency and learning requirement.

Part (b) again was poorly answered overall with several candidates not showing much awareness of the factors. A good number mentioned the Pensions Act 2004 and the need for trustees to be conversant with the policy documents for their scheme and a few mentioned the Pensions Regulator's Codes of Practice. Apart from this, there was little substance in the answers given; it was evident that candidates had simply not learned the material. Common omissions were:

- The Pensions Regulator (tPR) has developed a free e-learning programme designed to help trustees with issues they encounter in their roles
- tPR has a dedicated section of their website to governance and administration
- Firms offer trustee training
- The trustee board may wish to retain a central register to keep a log of training undertaken by individual trustees.
- Providers of contract based schemes are regulated by the FCA so they have to be authorised by the FCA before they can engage in the establishment and operation of a regulated pension product.

The relevant section of the study manual was Part 4, Chapter 1, 1.1.7 and Part 4 Chapter 1, 1.1.5.

Question 4

Write notes on 'uncrystallised funds pension lump sums' (UFPLS). Your answer should include an explanation of the tax treatment of an UFPLS. (10 marks)

This question was answered to a good standard with most candidates scoring very high marks. In particular the examiners were pleased to see that candidates recognised that the receipt of an UFPLS triggers the money purchase annual allowance. The only substantive omissions were:

- The 25% tax free element is not a pension commencement lump sum
- An UFPLS is a BCE and can only be paid if the member has available lifetime allowance

The relevant section of the study manual was Part 3, Chapter 1, 1.6.3.

Question 5

Describe enhanced annuities and list the medical conditions which may result in such an annuity being payable. (10 marks)

As with question four this was another well answered question with some very high marks being awarded. There were however a few clients who could not recall some of the conditions such as asthma and high blood pressure.

The relevant section of the study manual was Part 3, Chapter 1, 1.5.2.

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Taxation, Retail Investment and Pensions

A relatively small number of candidates sat the paper and overall, the standard was mixed. As has been the case previously, in setting an appropriate pass mark, the examiners allowed for the fact that the study manual contains a substantial amount of material for candidates to digest.

The handwriting on a few papers was very difficult to decipher and whilst the time constraints of an examination are appreciated, this does make it very difficult for examiners to mark such scripts.

Question 1

Explain how Class 1 National Insurance contributions for employees are calculated.
(6 marks)

This question was reasonably well answered with some candidates picking up most of the relevant points.

Good answers should have noted that NIC's paid by employees are based on earnings plus benefits in kind and that the rate is 12% on remuneration between the Primary Threshold (£157 pw in 2017/18) and the Upper Earnings Limit (£866 pw in 2017/18). The rate payable on remuneration above the UEL is 2%. None of the candidates referred to the fact that an employee with more than one job can request permission from HMRC to defer payment of some NIC's to avoid overpayment. Similarly, no candidates mentioned that, to ensure that the correct amount is paid, NIC's for a director are calculated over an annual earnings period (6 April to 5 April) rather than on a weekly or monthly basis.

The relevant section of the study manual was Part 2, Chapter 2.

Question 2

Audrey died in December 2014 and her estate was valued at £750,000. The Inheritance Tax (IHT) paid on her estate amounted to £170,000. Her Will provided for a legacy of £500,000 to be left to her brother, Basil, who subsequently died in January 2017. Basil left his entire estate of £1.2M to his son, Peter and had not made any Potentially Exempt Transfers in the 7 years prior to his death.

Outline how the IHT liability on Basil's estate will be reduced as a result of the legacy left to him by Audrey and calculate the IHT liability that will be due on his estate.
(6 marks)

Overall, there was a mixed response to this question with one candidate gaining maximum marks and others close to the maximum. In contrast, there were two candidates who failed to score any marks at all.

Answers should have noted that the question relates to Successive Charges Relief (Quick Succession Relief) for IHT purposes and applies due to the fact that Basil died within 5 years of a transfer being made to him. A sliding scale applies and marks were awarded to candidates who set these out in a table. In this particular case the SCR is 500,000/750,000 x £170,000 x 60% = £68,000. The IHT liability is therefore £1.2M less NRB (£325,000) x 40% less SCR (£68,000) = £282,000.

The relevant section of the study manual was Part 2, Chapter 4.

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Question 3

Identify the different types of bonds and describe their characteristics. (20 marks)

On the whole, the question was quite well answered with one or two candidates making excellent attempts.

The main categories and characteristics are as follows:

1. **Government Bonds (UK and overseas)**
   E.g. UK Gilts, US Treasuries, German Bunds.
   Considered safest as backed by government guarantees/low risk of default.

2. **PIIG's economies (Portugal, Italy, Ireland, Greece)**
   Offer a higher yield in return for a perceived greater risk of default.

3. **Bonds issued by Supranational agencies**
   E.g. World Bank, European Investment Bank.
   Considered to be as safe as those issued by Central governments.

4. **Bonds issued by lower levels of government**
   E.g. Local authorities, government agencies.
   Not considered as safe as those issued by central governments.

5. **Index-linked government bonds**
   Coupon and redemption payment linked to a measure of inflation.
   E.g. RPI or CPI in the UK.
   Range of maturity dates has expanded in recent years.
   E.g. Ultra-long bonds/50+ years.
   Results from growing demand from pension funds to match inflation linked liabilities.

6. **Investment grade corporate bonds**
   Offer higher yield than government bonds to compensate for higher risk.
   Rank above ordinary shares on insolvency.
   Rated by credit rating agencies such as Moodys and Standard and Poors.

7. **Non investment grade high yield corporate bonds**
   Offer a higher yield than investment grade corporate bonds due to higher risk of default.

8. **Emerging Markets debt**
   Bonds issued by governments and companies of less developed countries.
   E.g. Brazil, Mexico, Russia.
   Offer higher returns to compensate for increased economic and political risk.

9. **General**
   Conventional bonds offer a known capital return at redemption and a fixed rate of interest in the meantime.
   A rise in interest rates will result in a reduction in price and vice versa.

The relevant section of the study manual was Part 3, Chapter 2.

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Question 4

In your role as a pension consultant for the XYZ Defined Benefits Pension Scheme you have been asked by the trustees to provide a briefing note on the tax consequences of lump sum death benefits. The note should include the responsibilities of the Scheme Administrator and the legal representatives following the death of a scheme member.

(20 marks)

Apart from a few good attempts, this question was poorly answered with most candidates failing to identify the relevant points.

Good answers should have noted that, in the event of death prior to age 75:

- A relevant lump sum death benefit is a BCE.
- The lump sum is tax free unless the member's LTA is exceeded.
- The scheme administrator will pay the benefit gross and must inform the legal representatives within 3 months of the percentage of the standard LTA used.
- Legal representatives are responsible for reporting any excess to HMRC.
- Some schemes may allow a member the option of a pension protection lump sum benefit which is not a BCE.
- A PPLS is taxed at the recipient's marginal rate.
- A PPLS could be preferable where the LTA has already been exceeded.

On death after age 75:

- A relevant lump sum benefit is not a BCE.
- Benefits paid will be taxed at the recipient's marginal rate.
- Tax will be deducted at source by the scheme.

IHT

- Lump sum death benefits are usually paid at the discretion of the trustees and therefore, do not form part of the deceased's estate for IHT purposes.
- A return of contributions could be paid to the estate and would therefore be subject to IHT.
- In order to avoid IHT, lump sum death benefits must be paid within 2 years of the date of death.

The relevant section of the study manual was Part 1, Chapter 12.

Question 5

Explain what an Uncrystallised Funds Pension Lump Sum (UFPLS) is and why pension scheme members should carefully consider their tax position before deciding to take an UFPLS. (6 marks)

This question was well answered and it was clear that most candidates had a good understanding of UFPLS.

Marks were awarded where candidates noted that UFPLS was effective as from 6 April 2015 and allows pension plan members to either take benefits as a single lump sum or in tranches and such benefits can be taken from any uncrystallised funds. 25% is tax free and the balance subject to income tax at the member's marginal rate. Care should be taken to ensure that, if possible, members do not stray into a higher tax bracket as a result of drawing a large lump sum. This can be managed

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tax effectively by drawing more modest sums over a period of years. Most candidates failed to identify the fact that a transfer to a SIPP may be required in order to facilitate UFPLS.

The relevant section of the study manual was Part 1 Chapter 11.

Question 6

Outline the statutory rights members of DB schemes with DC AVCs have to transfer out the value of their benefits and include details of other requirements which must be fulfilled before the trustees of the transferring scheme will allow a transfer to proceed.

(8 marks)

This question was reasonably well answered by most of the candidates with a few scoring very good marks.

The examiners were looking for answers which included the following:

DB schemes

- Deferred members have a statutory right to a transfer up to a year prior to NRA.
- If a member has left pensionable service without leaving employment, there is no statutory right to a transfer in respect of benefits accrued prior to 6 April 1988.
- The Scheme Rules may allow a transfer where there is no statutory right.
- A member must obtain independent advice in respect of a transfer to a pension plan which provides flexible benefits and the transfer is above £30,000.

DC schemes

- A member has a statutory right to transfer at any time prior to drawing benefits.
- DC AVC's can be transferred independently of any DB rights.

Overseas transfers

- There is no statutory right unless the overseas scheme is a ROPS.
- The member must complete a declaration to enable the scheme administrator to calculate the LTA percentage.
- The member must sign a declaration acknowledging that, regardless of residency, he/she may have to pay UK tax on the transfer or at a later date.

General

- Transfers can be split across several different plans.
- Transfers from unfunded public sector schemes are not permitted.

The relevant section of the study manual was Part 1, Chapter 10.

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Question 7

Outline the main features of investment trusts. (7 marks)

Most candidates appeared to have little or no knowledge of this type of investment vehicle with several scoring no marks at all.

Good answers should have noted that investment trusts are pooled funds structured as companies with shares traded on the London Stock Exchange. They are closed ended funds with a fixed number of shares which means that the share price is based on both the underlying value of the assets as well as demand. Consequently, the share price can move independently of the asset value. Shares trade at a premium or discount to net asset value and the company can borrow to invest which can enhance any gain should the share price rise. The opposite will apply in the event of a share price decline. Investment trusts do not fall under the FCA restrictions on collective investment schemes but are governed by the Companies Act and stock exchange listing requirements.

The relevant section of the study manual was Part 3, Chapter 3.

Question 8

Identify the key features of Lifetime ISA's. (7 marks)

Once again, there was a mixed response to this question. Some candidates scored good marks whilst others failed to identify most of the relevant points.

LISA's allow those aged between 18 and 40 to open an account and save up to £4,000 pa. Any amount invested up to an account holder's 50th birthday will qualify for a 25% bonus. Some or all of the investment can be used to buy a first home up to a value of £450,000 or, withdrawn after age 60 without penalty. The annual allowance can form a part of an individual's overall ISA allowance (currently £20,000 pa) and if deemed to be appropriate, Help to Buy ISA's can be transferred in. Withdrawals prior to age 60 other than for house purchase, will not qualify for the bonus and will forfeit any growth/interest accrued as well as be subject to a 5% penalty.

The relevant section of the study manual was Part 3, Chapter 3.

Question 9

The Finance Director of ABC Ltd has approached you in your capacity as an employee benefits consultant to advise you that the company is considering introducing a group PHI scheme for its staff.

Draft an email to the finance director explaining the design features which could be incorporated into such a scheme. (20 marks)

Overall, this question was not well answered with only a few candidates scoring reasonable marks. Some candidates appeared to confuse group permanent health insurance with group medical insurance. One candidate in particular wrote an excellent report relating to the latter for which, unfortunately, the examiners were unable to award any marks.

The eligibility conditions for a group PHI scheme can include entry age, salary and employment category. There would normally be a requirement to be actively at work at the commencement of cover and if any future increments are required. Some candidates referred to this requirement but very few attempted to provide an example of the possible wording. There is usually a free cover limit above which medical underwriting is required. The definition of incapacity/disability will be set out in the policy wording and candidates would have gained a mark for giving an example of such wording.

The policy may provide for a proportionate benefit to be payable if an employee is able to return to work on a part time basis or if a lower paid job can be taken up. The policy will also stipulate a waiting period before benefits can commence and it is possible to include benefit increases at either a fixed rate or in line with inflation. The benefit can be paid up to retirement age or, to keep costs down, for a limited period, e.g. 2, 3 or 5 years. The benefit payable would normally be a proportion of salary and could include a lump sum at the end of a limited payment period, e,g. equivalent to future pension contributions to be paid into the employee's pension fund.

Benefit payments are normally made to the sponsoring employer and administered through the payroll although some insurers will allow "pay direct".

The employer usually pays the premiums as they rank as an expense for corporation tax purposes but are not treated as a benefit in kind from an employee's point of view. Employees can contribute by salary sacrifice.

The relevant section of the study manual was Part 4, Chapter 2.

Retail Advice and Regulation

The overall standard of the answer papers for the examination was surprisingly poor. There appears to be a consistent underperformance of the candidates taking this examination, therefore active feedback is requested for any suggestions that may be made to the supporting manual or examination paper, to adequately prepare candidates for the examination.

It has been acknowledged that the paper covered specified topics, which candidates may have struggled with if they didn't adequately prepare. A further reminder is provided that all sections of the manual may be covered by the examination and should be studied to ensure candidates are adequately prepared. Candidates should also be read carefully to ensure an appropriate answer is provided. Once again, marks are awarded for format so candidates should ensure their response is written in the format requested.

Question 1

A long-standing client has approached you for advice in relation to his Defined Benefit Occupational Pension Scheme of which he is currently a deferred member. Due to the funding position of the Scheme, his employer has offered him an inducement should he transfer his benefits out of the Scheme and he would like your advice in relation to this matter. The client was an active member of the pension scheme for 15 years and the amount of the pension accrued to date is £8,750 per annum. The employer is offering an enhancement of 10% of the CETV (cash equivalent transfer value) if your client takes the option to transfer his benefits. He is likely to retire in the next 5 years. Produce a suitability report confirming your recommendations, focusing on:

- relevant information that has been collated as part of the fact-finding process – both on a personal basis and information in relation to the existing benefits (20 marks)
- your advice as to whether or not he should proceed with a transfer – focusing on the advantages and disadvantages of your recommendation to ensure the client is fully informed (13 marks)
- details of his pension entitlement under the Pension Protection Fund should the Scheme become insolvent. (7 marks)

Candidates should be aware that marks are available for the format and clarity of the suitability report. Therefore, consideration should be given to the client's taxation status, attitude to risk, costs and consequences of implementing the advice and the service levels to be expected from you as the Financial Adviser (5 marks).

(45 marks available for this question)

Candidates generally provided the relevant information that should have been collated as part of the factfinding process, however the details in relation to the customer's capacity for loss was generally omitted as were details of the current funding status of the existing scheme. Candidates who achieved high scores could document: the individual's circumstances; including the target retirement age; details of income; expenditure; assets and liabilities; health; tax status; income requirement in retirement and details of any other pension arrangements including tax free cash entitlement; pension in retirement; increases in deferment and retirement and early retirement factors.

Interesting all candidates started from the advice stance that the pension transfer was not suitable. Whilst this may be the case consideration should be given to the FCA's recent guidance that when reviewing whether a pension transfer from an occupational scheme is suitable, the initial consideration should be from a neutral stance. Appropriate research should then be undertaken in order to determine the advice which should link to a clear client objective. When determining the advice, reference to the individual's attitude to risk, capacity for loss and the ability of the existing scheme being able to match the client's objective needs to be evidenced.

The advantages and disadvantages tended to be covered sufficiently however from the view point that the funds shouldn't be transferred. Candidates are reminded that when providing advice, the recommendation should be clearly linked to the client's objective and not simply be a list of advantages and recommendations, with a view that the individual decides on whether to transfer their benefits are not.

The majority of candidates covered the basics of the PPF (Pension Protection Fund) however candidates scoring higher marks could provide details of the benefit cap when it applicable and the impact on early retirement and the maximum benefits available.

The majority of candidates provided the answer in the correct format. All candidates are reminded when drafting a suitability report, not only should the format be considered but also the clarity and content of the report.

The relevant sections of the study manual were Part 5, Chapter 1-1.6, Part 2, Chapter 2.2-2.6, and Part 1 Chapter 1 -1.6.

Question 2

List the conditions that an employer must meet to enable it to promote its group personal pension scheme to its employees.

If these conditions are not met explain the action that the employer must take. (10 marks)

This question on a whole was poorly answered. Whilst the majority of candidates noted that commission couldn't be received by the employer and that promotional material must refer to the right to a regulated adviser, candidates that scored well on the question could document what would be classed as an exempt financial promotion and what must be included. In addition they could evidence their understanding that material should be signed off by an authorised individual and that employers should not provide personalised advice.

The relevant section of the study manual was Part 3, Chapter 2.6.

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Question 3

Explain the term 'Breach of Trust' and the potential liability for a Trustee who commits such a breach. (10 marks)

Whilst, the majority of Candidates could explain a 'Breach of Trust' there was often a lack of explanation in relation to the potential liability for the Breach of a Trust. The answer should have also covered that a Trustee could be personal liable for any loss including that they may be sued by the beneficiaries and could also be potentially responsible for acts of co-trustees if there no due care was exercised.

The relevant section of the study manual was Part 4, Chapter 6.9.

Question 4

You are a newly appointed Compliance Manager at a firm of Independent Financial Advisers (IFAs). Write a briefing paper on the Financial Advice Market Review (FAMR), focusing on:

- the reasons why the review was instigated, (6 marks) and
- the three recommendations of the review. (14 marks)

This was answered disappointedly with the majority of Candidates not reading the question, or having insufficient knowledge about the topic. It was evident that the majority of Candidates based their answer on the RDR (Retail Distribution Review) as opposed to the Financial Advice Review. The answer should have focused on affordability, accessibly and liability and redress within the financial advice market. Candidates are reminded to review topical issues when preparing for the examinations.

The relevant section of the study manual was Part 1, Chapter 3.2.

Question 5

In relation to a life assurance contract:

- List the conditions that must be fulfilled for the contract to be binding . (10 marks)
- Define the term "contractual capacity" and briefly outline the types of individuals who would be affected. (5 marks)

The basic conditions that must be fulfilled where highlighted in most cases (namely offer and acceptance and consideration), however the better performing Candidates could cover the utmost good faith, duty of disclosure, duty of reasonable care and insurable interest. The contractual capacity part of the question was well answered with the majority of candidates outlining that minors, those with a mental illness and intoxication would be affected. Overall a good attempt was made by Candidates.

The relevant section of the study manual was Part 4, Chapter 2.1-2.2.

Professionalism and Governance

The PMI's Professionalism & Governance exam is intended as the final stage in the Advanced Diploma.

The study material consists of two core Manuals on Governance and Communications and the PMI's Code of Professional Conduct. Part one of the exam is a case study, which is based on information directly drawn from the Governance Manual, this carries 60% of the marks available. These 60 marks are awarded mainly on candidates ability to draw from the technical information within the manual, with a smaller proportion of marks awarded for communications technique and style.

Part two consists of three or four short questions. These can be drawn from the syllabus or the Code of Conduct. Candidates may be expected to assess a given situation where a professionalism issue arises and identify how it relates to the Code, writing a short response referencing the relevant section of the Code. There may be times where part two questions address a specific governance issue. Part two carries 40% of the marks available and no communication marks are awarded. The Professionalism Manual is available to assist candidates in their preparations. However as all PMI members are required to adhere to the Code of Professional Conduct, this is a key document which candidates must learn in order to pass this exam. The Code is available for download from the PMI website. Regardless of their status, all PMI members should be familiar with its content.

At this sitting, we were very pleased to note a good proportion of candidates passed the examination with very high marks. It is clear these candidates had a good knowledge of both the Manual and the Code. Learning all the study material is vital to passing the examination. There is no requirement for candidates to achieve a specific percentage in either part of the exam. The exam paper shows the marks allocated for each question and this should be taken into account when deciding how much time to spend on them. The questions can also be answered in any order. The majority of marks are gained from the case study and candidates are unlikely to gain sufficient marks to pass the exam unless they have studied and learnt the Governance Manual. However a number of candidates gained reasonable marks in the case study, only to be let down by not learning the specific contents of the Code and not being able to apply these to a given situation. Sadly, for some candidates, this meant they did not gain sufficient marks to pass the examination. The Code is two pages of A4 and is separated into six sections, these sections are further sub-divided and candidates are expected to learn <u>and be able to apply</u> the contents to the short scenarios. As professionals they will be expected to do this throughout their careers.

The pensions profession now communicates mainly electronically and rarely by the pure written word. However, in an exam there is still a reliance on handwriting and examiners must interpret candidates answers in order for them to gain the marks they need to pass. It is therefore imperative that as part of the preparation for this exam, candidates practice writing freehand for prolonged periods. Integral to written exam responses is the ability to plan thoughts and ideas so the answer flows logically and candidates take every opportunity to ensure their answer will reflect the requirements of the question. It is pleasing to note that few candidates ran out of time this year. However there were some who would have gained higher marks, or passed, had they spent a little time on planning. As the plan develops, it should be referred back to the question to ensure candidates are answering the question posed and not their interpretation of it. It is a shame when candidates spend time on areas which carry no marks. Once the plan is complete and candidates begin drafting their answer, they need to ensure the answer follows the plan. Planning is integral to getting optimum marks in the exam, as is ensuring sufficient time is allocated to reading through completed answers. This is where candidates have the opportunity to test if their answers make sense and flow, to ensure they have not missed out any vital pieces of information and to add finesse to their answers.

The answer to the case study, Question 1, could be found in Part 1, Chapters 1 and 2 of the Governance Study Manual. The Communications Manual assists candidates in understanding how to frame the format of their answers, 12 relatively easy, but important, marks are available for communication. The question was:

You are the Pensions Manager and Secretary to the Trustees for the XYZ Pension Scheme. The scheme has both defined benefit and defined contribution sections. As part of their governance programme, the Trustees are keen to ensure they are following best practice in controlling and mitigating risk. They want to go beyond the basic advice of the Pension Regulator.
Prepare a report for the Trustees setting out:

- the specific risks the Scheme faces
- details of the process the Trustees should follow to develop a Risk Register
- a template for a Risk Register that would be appropriate for the XYZ Scheme

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Include two examples of a specific risk and how it might be controlled and/or mitigated.

(60 marks)

The order of the required areas to cover in the bullet points are directly reflected in the Manual. This was picked up by many candidates, those who had studied and understood the Manual gained good marks in the case study. There were still some candidates who do not appear to have learned the manual, which is a pity. Whilst 60 marks are allocated, there are always more available. Some candidates omitted to include all the required points, or cover these in enough detail to gain sufficient marks. Many candidates did not address the specifics of DC risks, both generally and for this scheme. A number of scripts lacked detail, were repetitive or were vague in the point they were attempting to convey. It is difficult to award marks if candidates are not clear in their referencing and no further marks can be awarded for points which are repeated. Candidates who did less well struggled to attain an appropriate balance between the different sections and did not cover enough detail on why to have a Risk Register and develop one, with too much emphasis on potential specific risks. Several gave more than the required two examples in the Risk Register and they had often not given enough detail on the development of the Register itself. Having analysed the scripts of candidates who passed the exam, we note that four of the five highest scoring candidates attended PMI's Revision session.

The Communication Manual is provided so candidates can familiarise themselves with the styles and typical content of formats, that may be required in the exam, as part of their wider revision process. As is always the case with a case study answer, it is not enough simply to know the facts. The answer must be placed in context of the format and style required. Candidates should remember, they may be asked to provide more than one format. This case study required a report format. However format alone is not sufficient to gain full communication marks. Answers were marked on their style, whether it was appropriate for the specific scenario, and its flow as well as the format itself. Candidates therefore needed to think about their audience and what role they are fulfilling when composing their answers. Chapter 1 covers the basics of communications, what enables success and the consequences of poor communication. Chapter 2 covers the format and objectives of a report. The question was looking for candidates to take on the role of a Pensions Manager conveying information, but they were also being asked to illustrate what a comprehensive Risk Register might look like. This is in effect asking candidates to recommend a format for the register and to give two examples of any risk, with mitigations or controls. Whilst most candidates were familiar with report format, a number did not think about the purpose of the report and what the audience (the Trustees) would do with the information received. They did not conclude their reports with any real recommendations and some simply ended without any summation. This meant they were not able to gain the full marks available – and for some, this meant the difference between passing and failing. There are still some candidates who spent time on areas which were not pertinent to the question being asked. This not only detracted from their ability to gain sufficient technical marks, but also limited their communication marks. Candidates need to remember, no marks are gained for writing additional and unnecessary detail, and this simply wastes time.

Overall, the case study was answered well by many of the candidates and very well by a few outstanding candidates. It was pleasing to award high marks to these candidates.

The three short questions could only have been answered fully if candidates had read and learned the PMI Professional Code of Conduct, its sections and references, as well as understanding the syllabus. Ideally candidates should have worked through the Professionalism Manual so they know how the Code is applied in specific circumstances. Candidates need to be familiar with the Code and its structure so they can recall which area(s) a particular scenario relates to. It is also important for candidates to know the broader application of the organisational principles underlying the Code. Whilst all three short answer questions were based on the Code, candidates should bear in mind the short professionalism questions can be based on any area of pensions within the syllabus. It was pleasing to note most candidates concentrated on the professionalism aspect of the question and did not waste time writing about the technical details.

The short questions were:

Question 2

At a work related social event an employee from another pensions consultancy is talking loudly about the consultancy's clients, you feel that he is being unprofessional.

- When could you talk in public about a client your organisation works with?
- What should you do to ensure that the information you impart about your client is accurate?
- When is it not appropriate to discuss client issues in public?

(10 marks)

This question was answered with confidence by most candidates, but some lacked detail or appropriate referencing to the relevant sections of the Code. Most candidates picked up the requirement to respect confidentiality from any source (4e), but fewer candidates picked up the softer requirement for PMI members to conduct themselves with courtesy and consideration (6b). The majority of candidates knew permission would be required to talk about a client and that they should personally check any information back with the client. Above all, most candidates recognised that if they are in doubt they should say nothing.

Question 3

Discuss whether it would be acceptable to take each of the following gifts from a client:

- An initialled diary
- A case of expensive champagne at Christmas
- An invitation to join a client in their hospitality suite for a sporting event
- Dinner for you and your partner at the client's home

(15 marks)

This question was fairly well answered, but some lacked detail or appropriate referencing to the relevant sections of the Code. Most candidates picked up they should conduct themselves within the wider statutory, regulatory and legal requirements (1b) and enter the gifts on a Gifts Register. However candidates who did less well created their own company rules in which to frame their answers. Companies may have different policies on hospitality and gifts, even within the same industry. This constrained their ability to gain more marks as this question was asking candidates to differentiate between low value gifts and those which might be perceived to be having an undue influence (1f). Integrity (1d) is a key requirement of professionalism and is the basis for all interactions in business. Few candidates picked up that some companies may have policies on accepting alcohol. Similarly, few candidates suggested the potential for sharing the case of champagne with the team, raffling it or generally distributing it in an equitable manner. Whilst most candidates picked up that sporting hospitality could be acceptable, the reasons why were not covered i.e. was the invite extended to a wide range of guests? Most candidates picked up that it would generally be inappropriate to accept a personal offer of dinner in a client's own home. Regardless of the good intention, it may be perceived otherwise.

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Question 4
A friend, who knows you work in pensions, asks for advice on whether he should opt out of auto enrolment as he doesn't feel he can afford the contributions and wants to save for a holiday instead. How would you respond to this?

(10 marks)

This question was fairly well answered by most candidates who picked up they should be looking to act in accordance with all relevant statutory, regulatory and other legal requirements (1b). A number lacked detail or appropriate referencing to the relevant sections of the Code. Many candidates relied on referring the issue to their own Compliance Department, which demonstrated they had not picked up this is something that would easily happen to them in their own lives and referral may simply not be possible if the question was raised in an informal environment. The question asks candidates what they would do, it did not state whether or not candidates should assume they were Regulated to give advice – or not. Most candidates picked up they should not act where they have insufficient relevant experience or qualifications (2d). However few candidates expanded their answers to include the possibility of being regulated and as such lost marks on taking account of the best interests of clients (4b) and the potential for loss of objectivity (1d) which could have constraints on the nature or scope of their advice (4d). Where candidates assumed they were not regulated, most were able to signpost some form of independent financial advice, but many omitted to comment on what they could say about how tax relief works on pension contribution, Auto Enrolment and re-enrolment.

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